



**Franchising**<sup>™</sup>  
Building local businesses,  
one opportunity at a time.

February 11, 2009

Mr. Darryl Hairston  
Acting Administrator  
U.S. Small Business Administration  
409 Third Street, SW  
Washington, DC 20416

Dear Mr. Hairston:

On behalf of the International Franchise Association (IFA), I want to bring to your attention an urgent matter regarding the Small Business Administration's (SBA) changes to the Standard Operating Procedure (SOP) 50-10 revision 5(a). This rule change effectively caps the amount of goodwill financing at \$250,000. This new language—which was absent from previous versions—effectively eliminates the ability of a franchised small business owner to transfer or sell their company and keep employees working.

As the largest and oldest franchising trade group, the IFA's mission is to safeguard the business environment for franchising worldwide. IFA represents more than 85 industries, including more than 11,000 franchisee, 1,200 franchisor and 600 supplier members nationwide. According to a 2008 study conducted by PricewaterhouseCoopers, there are more than 900,000 franchised establishments in the U.S. that are responsible for creating 21 million American jobs and generating \$2.3 trillion in economic output.

The value of a small business is based primarily on the cash flow it can generate and to a much lesser extent on the value of the assets it has on its books. Lenders know this and use anticipated cash flow as the key determinant of a borrower's ability to repay the debt. For decades, the SBA's 7(a) loan program has allowed lenders to utilize this "goodwill" difference between the value of the business and the value of the book assets in establishing a basis for a guarantee when collateral is an issue. The goodwill financing proposal in the SBA's SOP would no longer allow for the transfer of the vast majority of small businesses to otherwise qualified new owners. The implications are far-reaching and likely will lead to a devaluation of small businesses across the nation.

At a time of economic uncertainty, the IFA is concerned by SBA's proposed rule change to eliminate the ability of prospective franchise business owners to acquire financing for healthy businesses that are transferring to new ownership. This proposed rule change is disastrous at a time when our economy is shedding jobs and credit markets are frozen so that capital is hard to come by. To effectively stop the transfer or sale of franchised small businesses would mean the additional and unnecessary displacement of employees and eliminate the reward small business owners sought when they took the risk to open their own company.

We strongly urge that the SBA reconsider the goodwill financing provision in the latest revision of the SOP 50-10.

Thank you for your consideration in this matter.

Sincerely,

A handwritten signature in black ink that reads "David French". The signature is stylized and cursive.

David French  
Vice President, Government Relations